LEGISLATIVE SERVICES AGENCY
OFFICE OF FISCAL AND MANAGEMENT ANALYSIS

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FISCAL IMPACT STATEMENT

LS 6318
BILL NUMBER: SB 18

DATE PREPARED: Nov 13, 1998
BILL AMENDED:

SUBJECT: EDGE tax credit.

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FUNDS AFFECTED: **X** **GENERAL**
X **DEDICATED**
FEDERAL

IMPACT: State

Summary of Legislation: This bill allows a person who proposes a project to preserve jobs in Indiana to apply for an Economic Development for a Growing Economy (EDGE) tax credit. It allows the EDGE Board to enter into an agreement for a tax credit with an applicant whose project will preserve jobs in Indiana. It also requires the Board to find the existence of certain conditions before entering into an agreement with the applicant for a tax credit.

Effective Date: July 1, 1999.

Explanation of State Expenditures: This bill may increase the amount of EDGE credits awarded annually as a greater number of businesses would be eligible for the credit. Currently, only businesses creating new jobs may apply. Under this proposal, businesses that would preserve jobs may also apply. This broader eligibility may expand the applicant pool, creating additional administrative demands on the Department of Commerce. The Department would be able to meet these demands given its current budget and resources.

Explanation of State Revenues: The original goal of the EDGE program was to provide a revenue-neutral incentive for businesses to create new investment and jobs in Indiana. Businesses received credits equal to the individual income taxes withheld for employees filling the newly created positions. Since revenue from these employees would not have been collected in the absence of the new development, the state does not incur a net loss by redistributing the incremental income revenue as tax credits to businesses.

This bill extends eligibility for EDGE credits to businesses that, in the face of more profitable alternatives, elect to maintain their current investment and employment levels in Indiana. Under this scenario, EDGE credits would be calculated against already collected revenues from employee income tax withholding. No new revenues would be realized since no new jobs would be created. Credits would then be paid from existing revenues, resulting in a net loss to the state equal to the amount of EDGE credits distributed to these businesses. However, if the firm chose a more profitable alternative and moved out of Indiana, there could be an even greater loss of revenue from the reduction in individual (from employees) and corporate taxes.

Both individual and corporate income taxes are distributed to the General Fund. A percentage of corporate adjusted gross income taxes are also distributed to the Property Tax Replacement Fund. The impact of this change may affect revenue collections beginning in FY 2000.

Explanation of Local Expenditures:

Explanation of Local Revenues:

State Agencies Affected: Department of Commerce.

Local Agencies Affected:

Information Sources: